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An Analytical Review of Different Concepts of *Riba* (Interest) in the Sub-Continent

Farooq Aziz*, Muhammad Mahmud** and Emad ul Karim***

ABSTRACT

The traditional concept of *Riba* (interest) is an excess amount on loan, which creditor receives from debtor on the repayment of loan. There is almost a consensus on the spirit of this concept that it is traditional thought or school; but along with that some other point of views also exist, which present *Riba*, in somewhat different ways, will be termed as non-traditional approach in this paper. Both of these schools are agreed on the point that, *Riba* is just restricted to debt, and the increment on it is *Riba*; but the main difference among these is that: former approach claims that, each and every addition on loan, regardless of purpose and time duration of loan is *Riba*; but, the later approach demand's some room for that on different grounds. Actually both of them do not have any sound base. When the concept of unearned income (the income, which is not the result of human labor), is a recognized fact in Islamic economics in different forms, like: *ijara* (rent), *Mudoraba* and *Mazara'a* (Share Cropping); then definitely no logical reason is left to avoid excess income on loan. Both approaches are just unable to give a concrete concept of *Riba*.

JEL. Classification: E43; E51; P51; P52; P59; P45

Keywords: *Riba*, Interest, Rent, Share Cropping

1. INTRODUCTION

What is *Riba*? The answer of this question is: "*Riba* is the loan given for specified period of time on the condition that, on expiry of the period; the borrower will repay it with some excess amount. (Al

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Jassas 1935). Normally it is a well recognized and accepted definition, which bifurcates cash/currency from other assets. This definition gives a special status to cash, in the sense that, reward of just cash/currency is being considered as unlawful and it is termed as *Riba*; whereas, the remuneration of all other assets, is valid in the form of rent (Siddiqui 1968). The basic reason of this division is depreciation; all depreciable items can be given on rent, which is considered as lawful. It is assumed that currency is not depreciated; hence its reward is unlawful. This is traditional school of thought.

But this concept is challenged by different thinkers from time to time. In the Sub Continent the history of ideas in this regard can be divided in two phases. 1st phase consist of the thoughts of Khan (1970) and *Saud Mand Tahreek*; and the second is formed with views of different thinkers of sixth and seventh decade of 20th century for example: Rehman (1963); Shah (1959); Palvi (1959); and Phulwari (1959) etc. No doubt other views are also there but more or less they are just following the lines of these thinkers. Hence the ideas of these thinkers may be presented as the representative of this school.

According to them *Riba* is also just restricted to debt, but it is only a case of exploitation not more than that. It will be termed as non-traditional school of thought in this paper. For the purpose of analysis of thoughts of both of these schools, the remaining paper is organized as under: section second deals with the concepts of traditional school. In the third section ideas of non-traditional thinkers are discussed. Fourth section is devoted for the critical analysis of ideas of both of these schools. Finally fifth section gives concluding remarks.

2. CONCEPT OF TRADITIONAL SCHOOL OF THOUGHT

Whereas the traditional thinking is concerned according to them, *Riba* is that excess amount which is received by creditor from debtor on loan, subject to time and agreement. Justification of this concept that, *Riba* is just restricted to debt is brought from the following words of Quran: Only real amount 2/279. If he is poor 2/280. Give relaxation line up to relief 2/280. In this context following matters are decided:

- Increase in amount whether it is small or large it will be treated as *Riba*.
- Nature of loan will not make any difference on it, i.e., whether it will be a commercial loan or consumer loan (Usmani 2005).
- During the loan period no effect of change in value of currency will be considered.
- In this definition simple and compound interest both are included (Usmani 2005).
- No rent of currency, gold or silver can be received by treating them as means of production.
- Any interest based transaction is not allowed between Muslim states and also between Muslim and Non-Muslim states (Maududi 1997).

2.1 A Basic Question and its Answer

In this context a basic question normally asked that, why *Riba* is just restricted to debt? In the other words it may be said that, when currency is a part of all assets, then why remuneration of just currency is unlawful and the reward of all other assets is valid in the form of rent? Muslim thinkers provide four basic reasons in this regard.

2.1.1 Depreciation

The main cause of rent according to them is depreciation. All those items can be given on rent, which are not consumed for example, land, furniture and machines etc. whereas the items, which lost their identity during consumption cannot be given on rent for example, food items raw material etc. Since the former items are depreciated during their consumption, hence on this basis their rent is lawful (Siddiqui 1968).

2.1.2 Change in Ownership

The second argument in favor of this thesis is that, all those items can be given on rent if their ownership is not changed during transaction, for example the ownership of land, machines, equipments etc. is not changed during the course of rent hence their rent is legal (Killani 1991).

2.1.1 Change in Nature.

Third reason is that, if the rented items are able to maintain their basic nature during the time of rent their remuneration is lawful. Since the nature of different items for example, machines and buildings etc. do not change during the process of rent, hence their rent is justified (Killani 1991).

2.1.4 Element of Risk.

Fourth argument of rent is the element of risk. Since owner of the asset takes the risk of damage or destruction by giving his asset on rent, hence its reward is his right, because under Islamic law profit is subject to risk. Hence rent is the remuneration of risk (Usmani 1999). On this ground traditional school bifurcates, cash / currency from other assets, and argues that, remuneration of former is considered as *Riba*, which is unlawful and reward of former is rent, which is acceptable.

3. NON-TRADITIONAL SCHOOL OF THOUGHT

Like the other Muslim countries a parallel but weak wave of alternate concept of *Riba* also exists in the Sub Continent. This school of thought presents *Riba*, only an extreme form of exploitation and not more than that. The first prominent name in this regard is Khan (1970).

3.1 Sir Syed Ahmed Khan's View about *Riba*

It should be kept in mind that, Sir Syed Ahmed Khan was not the first person who has deviated from the traditional thinking. Before him Shah Abdul Aziz in his *fatawa* had been allowed the Muslims of India that, they can engage themselves in interest transactions with Non-Muslims with exception of Hindus (Syed 1930). It was also valid in the eyes of Maulvi Abdul Hai Farangi Mehli, Allama Syed Abu Ishaq Hanafi, Maulana Syed Nasir Hussain and Syed Najam-ul-Hassan Lukhnavi etc. Following the lines of these scholars Sir Syed had restricted the concept of *Riba* to just that particular loan which is given to a very poor person and the creditor will receives some excess amount on it. On the other hand, if this additional amount is received by the creditor from a rich person it will be lawful. He had also considered that bank interest is valid and for all business transactions no objection can be raised on its validity.

3.2 Saud Mand Tahreek's Point of View

This movement has first time in the Sub-Continent presented some basic questions about the nature and implementation of *Riba* for serious literary discussion for example:

- What is the definition of *Riba*?
- Are the limits of *Riba* can be determined?
- Due to which reasons *Riba* was prohibited and what is the demand of that reason now a days.
- Is *Riba* absolutely prohibited or there is an exception in it?
- *Riba* which is prohibited is just restricted Muslims only or they can take it from Non-Muslims? etc (Ikram 1930)

According to their point of view, law of prohibition of *Riba* is applied only on compound interest, not on simple interest. Further it is not a general principle, but it is a form of extreme exploitation which is restricted by Quran.

Ahmed (1936), a prominent name of this movement has refused to accept *Riba* as absolute increment. Because according to him in all verses of Quran about the prohibition of *Riba*, the word *Riba* is came with (AL) alif and lam), is not of immersion, otherwise each and every type of profit in which trading profit is also included, will be considered as scared. Hence it is a particular type of increment, and its explanation is not available in both Quran and *Hadith*. According to him wholly prophet Muhammad (P.B.U.H.) did not explain it. Even there is not any consensus on it till the end of 1st century (Ahmed 1936).

The term *Riba* according to him is just applied on deferred sale transactions, in which buyer makes an agreement with seller to acquire certain quantity of crop / commodity in future by making some advance payment. If the seller fulfilled the agreement then transaction was completed. And, if he failed to do so then buyer had the right to receive some excess crop / commodity. This additional amount was considered as *Riba*.

In the final analysis he concluded that, a loan which is taken by a person for the purpose of breeding of his children or a situation in which there is a chance of default of debtor by repayment of loan will be termed as *Riba*. Only in these two conditions *Riba* is prohibited, otherwise in any condition, if creditor receives any excess amount on his loan, then it will be valid, subject to the conditions that: first the transaction will take place in *Dar-Us-Salam*, and second should be between two Muslims or the persons whose rights in the society are equal to a Muslim (Ahmed 1936).

Syed (1930) had chosen the economic factors for his reasoning against traditional approach from the platform of this movement. He said: interest is the trading profit of currency, which is differs from *Riba*. Hence each type of interest cannot be considered as *Riba*. There are two uses of currency, one is productive and the other is non-productive. In the old age man did not know the fruitful uses of currency, and just taken it as medium of exchange. It was the reason that, increment on currency was considered as unlawful.

Borrowing for trading activities and payment of interest on it, is a separate issue in which, both parties gain something. Due to this, productive use of money has increased significantly, and its reward should not be considered as unlawful (Syed 1930).

In the sixth and seventh decade of 20th century this school got a new life in the form of views of different thinkers, for example, Rehman (1963), Shah (1959), Palvi (1959) and Phulwari (1959). Their individual contribution in this context is as follows:

3.2.1 Concept of Dr. Fazal-ur-Rehman

In his opinion *Riba* was increment, which was imposed by the creditor on debtor when the latter was failed to repay the loan at due date. And due to this failure principal amount was increased by two to four times. He said it was the *Riba* which is prohibited by Quran, and for this purpose he reasoned from a verse of *Surrah A'le-Imran* in which *Allah* has restricted the Muslims to take such type of *Riba*. According to him, it is the only verse of Quran in which quantitative aspect of *Riba* is given. Hence only such type of increment will be treated as *Riba*, which is an extreme form of exploitation. Hence the background of prohibition of *Riba* is ethical and not economical (Rehman 1963).

3.2.2 Theory of Mr. Syed Yaqoob Shah

Shah (1959) has pointed out that, Quran has used the term *Al-Riba* in this regard. It means it is a particular type of *Riba* which was well known to the people of Arab. Since it was a particular type of increment, hence Quran did not explain it. It was that addition on loan which creditor received from debtor in case of his failure in repayment of loan. These were consumer loans and in most of the cases were taken by debtor under compulsion. It was a form of exploitation which is prohibited by Quran. But this prohibition is not applicable on commercial loans. Hence these types of loans with interest will be valid.

3.2.3 Complete Deny: Thoughts of Mr. Attaullah Palvi.

In this context he has a unique point of view in the sense that, he has absolutely denied the concept of *Riba*. In his opinion *Riba* is not prohibited in Quran neither it was possible because Quran is valid till the Last Day. After analysis of all verses of Quran in this context, his conclusion is that, in any verse of Quran *Riba* is not declared as invalid. In all verses of Quran only one sentence of *Surrah Baqarah* verse 275 is that, from which this conclusion is being drawn. This sentence is "Allah has valid trade and prohibited *Riba*". According to him, this sentence is not the order of Allah, but actually these are the words of infidels and Quran is just quoting them. Hence prohibition of *Riba* cannot be proved from Quran (Palvi 1959).

3.2.4 Critics of Maulana M. Jafar Shah Phulwari

On the line of Sir Syed and other thinker, his point of view is that, *Riba* which is restricted by Quran just a form of exploitation, not more than that. On the other hand, if the increase in capital is with mutual consent then it is lawful. He has pointed out some event from the life of wholly Prophet Muhammad (P.B.H.U) in which increment was due to mutual understanding. Moreover he has raised some very basic objections on traditional concept of *Riba* for example; moreover he has raised some very basic objections on traditional concept of *Riba*, for example:

- Cash is a form of asset and its reward is considered as unlawful whereas the remuneration of other forms of assets is valid in the form of rent. How it is possible? that, reward of one form of asset is unlawful and additions, on other assets is valid.
- Bank Interest has an extra ordinary resemblance with *Mudaraba*. In case of *Mudaraba* worker (*aamil*) pays to financier (*Rab-ul-Mal*) a certain amount as his share of profit. Bank does the same with his customer. Only difference is that, former is uncertain and the latter is certain.
- Since, in *Shari'ah*, all sources of unearned income, for example, rent, *Mudaraba* and *Mazara'a* are lawful, then, why bank interest, which is another form of it, is unlawful?
- (There is no difference between *Bay-Salam* and bank interest, except that, in former creditor receives the excess amount in the form of commodities and in latter it is in the form of money.

- Quranic condition is that, trade will be with mutual consent, is being fulfilled in case of bank interest.
- With the fact that, trade is lawful in Islam, some types of trades are invalid, for example *Bay Gharar*. Hence, *Riba* is not just the name of increment, so that each and every type of addition will be unlawful. It will be restricted only when it has an aspect of exploitation (Phulwari 1959).

4. ANALYSIS

An independent analysis of views of both schools shows that, none of these has any sound base for their reasons. Their individual analysis is as follows:

4.1 Weakness of Traditional School's Reasons

The problem with the definition of *Riba* presented by this school is that, they bifurcate cash and other assets. Actually it is not possible to draw any boundary line between cash and other assets. The reasons which are given in this regard are completely baseless. Their individual analysis is as follows:

4.1.1. It is said that, reward of all depreciable items is possible. Depreciation of currency is a quite open phenomenon; on this basis excess amount on money automatically becomes lawful. But it is not recognized, it is an open contradiction.

4.1.2 Any argument from Quran and *hadith* cannot be provided that, on the basis of depreciation reward of any asset becomes lawful.

4.1.3. Whereas this argument is concerned that, in case of all assets other than cash ownership is not changed, and in case of cash it is changed, it is just a delusion, because both cases are quite same, and there is not any minor difference between these two. In both cases (Cash and other assets) both creditor and owner of asset temporarily lose the right to use their money and assets respectively, when these items returned back to them their rights as owner restored, as they were before lending. Hence, it cannot be said that, in case of debt, creditor's right of ownership has vanished, it remains same, and this argument is baseless.

4.1.3. It is reasoned that, in case of all other assets other than cash their nature remains intact during the transaction, and in case of cash it is changed because cash in normal conditions cannot be used directly, it has to convert in different forms, for example, machines and equipments etc. If this argument is accepted then on this basis bank interest becomes lawful, because in case of bank, depositor deposit their savings, in the form of cash, Bank also returned them in the form of money with interest, during this transaction nature of item (money / cash) is not changed. Will on this ground bank interest will be considered as lawful?

4.1.4. The fourth justification, which is based on risk, cannot be accepted, because, if it is recognized, and then, on this base gambling will become a lawful activity. Because, the element of risk is at its peak in gambling. Definitely it cannot be accepted, because, it is strictly prohibited by Quran.

4.2 Problems of Non-Traditional School of Thought

In this regard the position of non-traditional thinkers is quite poor. They are just unable to give any precise definition of *Riba* they have more or less emphasized on the aspect of exploitation. According to them this term is by nature a relative term, and its measurement is not possible. Its degree may be changed from person to person and time to time. Then in this situation how a concrete definition of *Riba* is possible?

Whereas, this point of view is concerned, *Riba* is restricted to that transactions in which creditor receives the twice or thrice amount of his capital is quite baseless. Because, if this concept is admitted, then on this basis 99.99% rate of interest will be lawful, this is definitely not possible. On the same line, if the concept of mutual consent is recognized, then on this base, rape with consent will become lawful, because the base of judgment is just consent. Definitely it can not be acknowledged.

Whereas, the difference of consumer or trading loans is concerned, this distinction is quite meaningless. A loan, which is taken for consumption, can be used for trading purpose. And a commercial loan may be employed for any consumption purpose. Hence on this base, definition of *Riba* is not possible. For this reason it is very difficult to give any weight for the arguments of non-traditional school of thought.

5. CONCLUSION

On the basis of above arguments, it can be concluded that, both traditional and non-traditional schools are agreed that, *Riba* is just restricted to debt, and it is an excess amount on loan subject to time and agreement. But the main difference is that, former is not ready to accept any increment on loan and treated it as *Riba*, whereas, the latter demand sum space for that. But none of them do have any logical base for their claim. It means that Muslims economic thinkers are still not able to give any precise and logical concept of *Riba*. The basic problem in this regard is artificial division between cash and other assets. This unnatural bifurcation provides ground for criticism on traditional concept. If the effort is being made to avoid this hypnotically separation and all assets should be treated in the same way, then it will be possible to get a reasonable and concrete concept of *Riba*.

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